

NORWALK COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Norwalk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 Election)</b>		
Katherine Schmidt	President	2008
George Meinecke	Vice President	2008
Tom Phillips	Board Member	2006
Deborah Hobbs	Board Member	2006
Rick Kaul	Board Member	2007
<b>Board of Education (After September 2006 Election)</b>		
Katherine Schmidt	President	2008
George Meinecke	Vice President	2008
Rick Kaul	Board Member	2007
Tom Phillips	Board Member	2009
Deborah Hobbs	Board Member	2009
<b>School Officials</b>		
Dr. Dennis Wulf	Superintendent	2007
Kate Baldwin	Business Manager and District Secretary	2007
Drew Bracken	Attorney	2007

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Norwalk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Norwalk Community School District, Norwalk, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

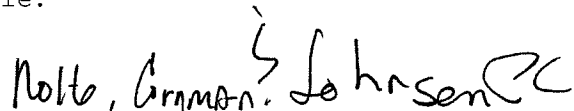
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Norwalk Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2008 on our consideration of the Norwalk Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 16 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Norwalk Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Norwalk Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- Fiscal 2007 General Fund revenues exceeded expenses by \$1,791,371. The excess of revenues over expenses resulted in an increase in the fund balance from \$4,308,548 to \$6,099,919. Revenues were \$17.8 million vs. \$16.5 million in fiscal 2006, and expenditures were \$16.0 million vs. \$14.8 million in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in local, state and federal sources of revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- An increase in interest rates during the past year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$180,096 in fiscal 2006 to \$301,855 in fiscal 2007.
- Financial solvency ratio is a measure of the financial health of a School District used to determine the District's ability to fund outstanding financial liabilities at fiscal year end. A targeted solvency ratio is at or above the 5% level. If a school district's financial solvency is negative, this raises cause for concern. A solvency ratio at or below -3% requires action in the form of a "Workout Plan" by the School District's Board of Directors to correct the financial position of the District.

In FY2003 the Board of Directors of the Norwalk Community School District adopted specific financial goals and procedures to pro-actively place the School District in a stronger financial position with a higher solvency ratio.

#### Actions Taken by the Board of Directors:

- Adopt a Board Resolution to Increase the District's solvency ratio to 15% or greater
- Adopt a Board Policy to Create and Maintain a "Balanced Budget" annually
- FY2004- Adoption of a One-Year Instructional Support Levy at the Maximum 10% Revenue Rate
- FY2004- Voter Approved Physical Plant & Equipment Levy at the Maximum Rate of \$1.34/\$1000
- FY2004- Voter Approved Local Option Sales Tax at 1 cent per Retail Sales in Warren County
- FY2005- Adoption of a full Five-year Instructional Support Levy at the Maximum 10% Revenue Rate

Below is a recap of the solvency ratios for the past six fiscal years:

FY2001	0.78%
FY2002	-5.08%
FY2003	0.96%
FY2004	7.75%
FY2005	17.51%

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FY2006	27.19%
FY2007	33.59%
<i>Est. FY2008</i>	<i>32.48%</i>

The District has surpassed the original targeted goal of 5% and has decided to maintain a future solvency ratio of 15%.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Norwalk Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Norwalk Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Norwalk Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

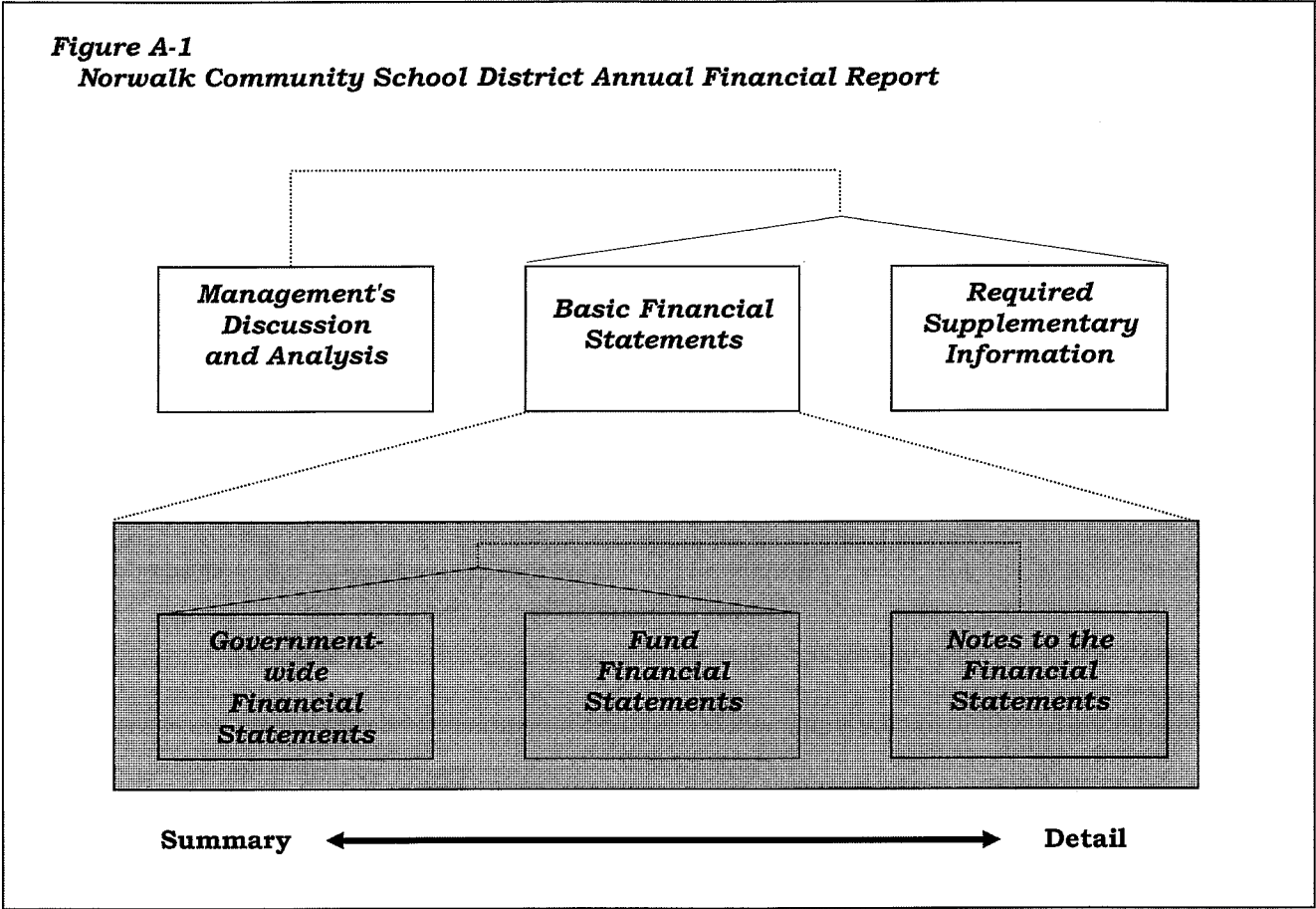




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District's internal service funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service fund, the Self-Funded Health Insurance Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 15,712,043	23,776,423	398,158	465,877	16,110,201	24,242,300	-33.55%
Capital assets	22,101,714	12,953,701	153,648	173,884	22,255,362	13,127,585	69.53%
Total assets	37,813,757	36,730,124	551,806	639,761	38,365,563	37,369,885	2.66%
Long-term obligations	16,484,932	20,672,668	0	0	16,484,932	20,672,668	-20.26%
Other liabilities	6,568,308	6,302,028	11,894	25,121	6,580,202	6,327,149	4.00%
Total liabilities	23,053,240	26,974,696	11,894	25,121	23,065,134	26,999,817	-14.57%
Net assets:							
Invested in capital assets, net of related debt	6,515,171	4,761,896	153,648	173,884	6,668,819	4,935,780	35.11%
Restricted	1,999,466	492,443	0	0	1,999,466	492,443	306.03%
Unrestricted	6,245,880	4,501,089	386,264	440,756	6,632,144	4,941,845	34.20%
Total net assets	\$ 14,760,517	9,755,428	539,912	614,640	15,300,429	10,370,068	47.54%

The District's combined net assets increased by 47.54%, or \$4,930,361, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$1,507,023, or 306.03% over the prior year. The increase

was primarily a result of the reclassification of restricted balances in the Capital Projects and Debt Service Funds.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$1,690,299, or 34.20%. This increase in unrestricted net assets was a result of the District receiving more in local, state and federal revenue sources in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 1,790,376	1,610,816	588,856	606,223	2,379,232	2,217,039	7.32%
Operating grants and contributions and restricted interest	2,142,772	1,590,985	196,353	184,253	2,339,125	1,775,238	31.76%
Capital grants and contributions and restricted interest	1,050,100	15,985	0	0	1,050,100	15,985	6469.28%
General revenues:							
Property tax	6,000,204	5,986,657	0	0	6,000,204	5,986,657	0.23%
Local option sales and services tax	850,489	749,949	0	0	850,489	749,949	13.41%
Unrestricted state grants	10,336,959	9,564,397	0	0	10,336,959	9,564,397	8.08%
Other	768,742	820,782	25,742	15,577	794,484	836,359	-5.01%
Transfers	165,450	0	(200,000)	0	(34,550)	0	-100.00%
Total revenues and transfers	23,105,092	20,339,571	610,951	806,053	23,716,043	21,145,624	12.16%
Program expenses:							
Governmental activities:							
Instructional	10,982,239	9,972,101	0	0	10,982,239	9,972,101	10.13%
Support services	5,241,463	4,864,400	34,050	0	5,275,513	4,864,400	8.45%
Non-instructional programs	0	0	651,629	666,300	651,629	666,300	-2.20%
Other expenses	1,876,301	1,894,303	0	0	1,876,301	1,894,303	-0.95%
Total expenses	18,100,003	16,730,804	685,679	666,300	18,785,682	17,397,104	7.98%
Changes in net assets	5,005,089	3,608,767	(74,728)	139,753	4,930,361	3,748,520	31.53%
Beginning Net Assets	9,755,428	6,146,661	614,640	474,887	10,370,068	6,621,548	56.61%
Ending Net Assets	\$ 14,760,517	9,755,428	539,912	614,640	15,300,429	10,370,068	47.54%

In FY03 the District adopted a one-year Instructional Support Levy for the FY04 School Year. In FY04 the School District extended this new Levy for an additional five years beginning with the FY05 School Year. The Board of Directors understands the significantly positive impact the Instructional Support Levy revenues have provided to the General Fund. The current ISL Board adoption will expire in FY2009, but the Board of Directors has issued a directive to renew the ISL for a second five-year period, extending the additional levy until 2014. The ISL is funded by a combination of local property tax revenues and state aid. Below is a recap of the additional revenues this levy has generated for the District over the past four years.

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	Local Property Taxes	State Aid	Total ISL Revenues
FY2003	\$522,537	\$166,207	\$688,744
FY2004	\$565,502	\$148,687	\$714,189
FY2005	\$599,292	\$141,965	\$741,257
FY2006	\$637,632	\$138,055	\$775,687
FY2007	\$636,497	\$138,055	\$774,552
<i>Est. FY2008</i>	<i>\$753,719</i>	<i>\$129,227</i>	<i>\$882,946</i>

The ISL has enabled the School District to achieve the targeted solvency ratios within a four-year period, by retaining these additional revenues to create a reserve fund to insure adequate cash flow needs and improve the District's overall financial stability. In year two (FY2005) the District achieved the initial goal of reaching a 5% solvency ratio. The District elected to utilize approximately 40% of the ISL revenues to fund new expenditures for curriculum and textbook purchases.

Below is a recap of the District's June 30<sup>th</sup> ending General Fund Balances for the past four fiscal years:

FY2003	\$ 1,071,608
FY2004	\$ 1,197,612
FY2005	\$ 2,674,848
FY2006	\$ 4,308,547
FY2007	\$ 6,099,919
<i>Est. FY2008</i>	<i>\$ 5,854,472</i>

In FY2008 the District opened a new secondary attendance center to serve 8<sup>th</sup> and 9<sup>th</sup> grade students. The District hired 15 new teachers to serve this school. The salaries of these teachers were funded out of the General Fund reserve balances. The District does not anticipate construction of another new attendance center until 2017, requiring the necessity to hire a large number of staff again. Until that time, staff will be added in small increments of one or two per year, depending upon enrollment growth.

In FY2005 the District implemented a partial self-funding employee health insurance program, assuming some of the employee health insurance claims liability for hospitalizations up to a maximum of \$500 per plan (single or family). This accounting is managed through an internal service fund. Below is a listing of the annual premium savings that has created retained earnings during each of the three years.

	Revenues	Expenses	Ending Fund Balances
FY2005	\$ 961,724	\$ 808,744	\$ 152,979
FY2006	\$1,164,170	\$1,030,888	\$ 286,261
FY2007	\$1,124,495	\$1,010,645	\$ 400,110
<i>Est. FY2008</i>	<i>\$1,120,000</i>	<i>\$1,016,000</i>	<i>\$ 504,110</i>

These measures to increase District revenues have resulted in a significant increase in ending year fund balances. The creation of these additional revenues are part of an action plan that was established to meet one of the District's financial goals. In FY03 School District's Board of Directors adopted the following financial goal with respect to fund balances: "The School District will maintain an Undesignated, Unreserved General Fund Balance equal to a minimum of 12% of total General Fund Expenditures for that school year (Fund Balance to increase as the budget grows; maximum of 15%)." The adoption of this Board financial goal and the subsequent action plan to increase General Fund and PPEL revenues has lead to an increase in Ending Net Assets.

In September 2002, the District renewed the Physical Plant & Equipment Levy (PPEL) for a 10-year levy period beginning with the FY04 School Year. The District renewed the annual levy

amount at the State Maximum limit of \$1.34 per \$1000, doubling the annual property tax collections for this levy. Below is a recap of the recent PPEL revenues, expenses and ending fund balances:

	<u>Revenues</u>	<u>Expenses</u>	<u>Ending Fund Balances</u>
FY2004	\$508,137	\$557,814	(\$ 33,721)
FY2005	\$470,174	\$638,605	(\$202,151)
FY2006	\$486,648	\$212,594	\$ 71,903
FY2007	\$509,508	\$437,484	\$143,927
<i>Est. FY2008</i>	<i>\$1,831,912</i>	<i>\$1,910,391</i>	<i>\$ 65,448</i>

In January 2003 the school districts of Warren County successfully passed a 10-year, county-wide Local Options Sales Tax Levy (LOSST) to increase school infrastructure funding. This revenue source has funded new construction and capital improvements. Below is a recap of the annual revenues, expenses and ending fund balance for LOSST Fund.

	<u>Revenues</u>	<u>Expenses</u>	<u>Ending Fund Balances</u>
FY2005	\$ 961,895	\$ 0	\$ 961,895
FY2006	\$1,063,835	\$1,541,985	\$ 483,745
FY2007	\$1,315,794	\$1,163,783	\$ 635,756
<i>Est. FY2008</i>	<i>\$1,298,375</i>	<i>\$1,162,667</i>	<i>\$ 771,464</i>

### Governmental Activities

Revenues, net transfers for governmental activities were \$23,105,092 and expenses were \$18,100,003.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>			<u>Net Cost of Services</u>		
			<u>Change</u>			<u>Change</u>
	2007	2006	2006-07	2007	2006	2006-07
Instruction	\$ 10,982,239	9,972,101	10.13%	7,785,535	7,451,876	4.48%
Support services	5,241,463	4,864,400	7.75%	4,140,711	4,810,119	-13.92%
Other expenses	1,876,301	1,894,303	-0.95%	1,190,509	1,251,023	-4.84%
Totals	<u>\$ 18,100,003</u>	<u>16,730,804</u>	<u>8.18%</u>	<u>13,116,755</u>	<u>13,513,018</u>	<u>-2.93%</u>

- The cost financed by users of the District's programs was \$1,790,376.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,192,872.
- The net cost of governmental activities was financed with \$6,000,204 in property tax, \$850,489 in local option sales and services tax, \$10,336,959 in unrestricted state grant and \$768,742 in other general revenues.

### Business-Type Activities

Revenues, net transfers of the District's business-type activity were \$610,951 and expenses were \$685,679. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income. During the year the District transferred \$200,000 to the Capital Projects, GO Bond

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Construction Fund to assist in financing new kitchen equipment to be added in the next fiscal year.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Norwalk Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$8,842,167, below last year's ending fund balances of \$17,323,351. However, the primary reason for the decrease was the increase in construction in the Capital Projects Fund.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Growth during the year in local revenue, state and federal grants resulted in an increase in revenues. The increase in revenues was partially offset by the District's increase in General Fund expenditures, resulting in a fund balance increase from \$4,308,548 to \$6,099,919.
- The Special Revenue, Physical Plant and Equipment Levy Fund balance increased from \$71,903 to \$143,927. This was due to the increase in revenues was greater than the increase in expenditures.
- The Capital Projects Fund balance was utilized for the issuance of bonds and the collection of local option sales and services tax. The capital improvement expenditures were funded by the issuance of a G.O. Bond of \$6.3 million and a Revenue Bond of \$2.875 million. During the year there was increased construction causing the Capital Projects Fund balance to decrease from \$8,317,236 to \$1,376,930.
- The Debt Service Fund balance was utilized for the payments of principal and interest on bonds. During 2006 the District crossover refunded \$3,675,000 in G.O. Bonds. This year the bonds were paid off and removed from the Districts long-term debt. Due to the previous bond requirements, the District was required to report the escrow at Bankers Trust that was used to payoff the original bond issue. This caused the Debt Service Fund balance to decrease from \$4,121,176 to \$746,550.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$614,640 at June 30, 2006 to \$539,912 at June 30, 2007, representing a decrease of 12.16%.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Norwalk Community School District amended its annual budget one time to reflect additional expenditures in the instruction and decreased expenditures in the other expenditures functions.

The District's revenues were \$2,408,994 more than budgeted revenues, a variance of 11.29%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund

spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functions due to the cross-over refunding bond not being included in the budget during the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$22.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 69.53% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$460,285.

The original cost of the District's capital assets was \$30.6 million. Governmental funds account for \$30.3 million with the remainder of \$0.3 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$11,744,327 at June 30, 2007, compared to \$2,589,411 reported at June 30, 2006. This increase resulted from the District's capital construction at the secondary campus site for an addition and renovations that are in progress at the year end.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 256,352	256,352	0	0	256,352	256,352	0.00%
Construction in progress	11,744,327	2,589,411	0	0	11,744,327	2,589,411	353.55%
Buildings	9,153,829	9,303,905	0	0	9,153,829	9,303,905	-1.61%
Land improvements	272,699	278,021	0	0	272,699	278,021	-1.91%
Machinery and equipment	674,507	526,012	153,648	173,884	828,155	699,896	18.33%
Total	\$ 22,101,714	12,953,701	153,648	173,884	22,255,362	13,127,585	69.53%

### Long-Term Debt

At June 30, 2007, the District had \$16,484,932 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of 20.26% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$13,470,000 at June 30, 2007.

The District had outstanding Revenue Bonds payable of \$2,875,000 at June 30, 2007.

The District had outstanding compensated absences payable from the General Fund of \$139,932 at June 30, 2007.



Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 13,470,000	17,620,000	-23.55%
Revenue bonds	2,875,000	2,875,000	0.00%
Early retirement	0	83,948	-100.00%
Compensated absences	139,932	93,720	49.31%
Totals	\$ 16,484,932	20,672,668	-20.26%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- The District has experienced increasing enrollment for the past several years and expects greater enrollment increases due to new housing developments in progress within the District. The average annual increase in student enrollment is approximately 35 to 40 students, based in the past five years of data. Below is a recap of the District's enrollment growth for the past six years:

<u>School Year</u>	<u>Certified Enrollment</u>	<u>Increase/Decrease</u>
2000-2001	2083.9	61.2
2001-2002	2097.2	13.3
2002-2003	2160.3	63.1
2003-2004	2185.8	25.5
2004-2005	2185.5	- 0.3
2005-2006	2238.0	52.5
2006-2007	2269.6	31.6

- The State of Iowa has approved a 4% allowable growth factor for all school districts in FY08 and 4% again in FY2009. This annual percentage increase in the per pupil cost coupled with increased enrollment will provide significant new funding for the School District.
- In February 2005 the District sold \$6.3 million on general obligation bonds to fund school construction. This new debt liability raised the District's Debt Service Levy to the \$4.04, close to the legal debt capacity levy limit of \$4.05/\$1000.
- In 2004 the District had developed a 20-Year facilities plan and did not intend to issue any additional general obligation debt until FY2012. Based in recent enrollment increases in our elementary grades and a desire to maintain small student class sizes (lower teacher-pupil ratios) to achieve academic goals, the District has revised our 20-year building plan to move the construction of elementary classroom up from 2012 to 2010.
- In February 2008 the District approved the sale of \$8.4 million of general obligation bonds to fund an elementary school addition. The bonds will be sold in two increments. The first with an estimated principal amount of \$6.205 million will be sold in May 2008. The second with an estimated principal amount of \$2.19 million will be sold in February or March of 2009.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kate Baldwin, Business Manager, Norwalk Community School District, 906 School Avenue, Norwalk, Iowa, 50211.

## BASIC FINANCIAL STATEMENTS

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 8,386,570	392,181	8,778,751
Receivables:			
Property tax:			
Delinquent	183,996	0	183,996
Succeeding year	6,118,222	0	6,118,222
Accounts	3,392	809	4,201
Accrued interest	79,577	360	79,937
Due from other governments	940,286	0	940,286
Inventories	0	4,808	4,808
Capital assets, net of accumulated depreciation (Note 5)	22,101,714	153,648	22,255,362
<b>TOTAL ASSETS</b>	<b>37,813,757</b>	<b>551,806</b>	<b>38,365,563</b>
<b>LIABILITIES</b>			
Accounts payable	117,179	0	117,179
Salaries and benefits payable	129,835	3,277	133,112
Accrued interest payable	98,542	0	98,542
Deferred revenue:			
Succeeding year property tax	6,118,222	0	6,118,222
Other	104,530	0	104,530
Unearned revenue	0	8,617	8,617
Long-term liabilities (Note 6):			
Portion due within one year:			
G.O. bonds payable	535,000	0	535,000
Revenue bonds payable	320,000	0	320,000
Compensated absences payable	139,932	0	139,932
Portion due after one year:			
G.O. bonds payable	12,935,000	0	12,935,000
Revenue bonds payable	2,555,000	0	2,555,000
<b>TOTAL LIABILITIES</b>	<b>23,053,240</b>	<b>11,894</b>	<b>23,065,134</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,515,171	153,648	6,668,819
Restricted for:			
Debt service	746,550	0	746,550
Market factor	15,675	0	15,675
Physical plant and equipment levy	143,927	0	143,927
Capital projects	618,473	0	618,473
Management levy	208,126	0	208,126
Other special revenue purposes	266,715	0	266,715
Unrestricted	6,245,880	386,264	6,632,144
<b>TOTAL NET ASSETS</b>	<b>\$ 14,760,517</b>	<b>539,912</b>	<b>15,300,429</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular instruction	\$ 7,010,602	867,760	1,244,308	0	(4,898,534)	0
Special instruction	2,156,188	264,429	193,909	0	(1,697,850)	0
Other instruction	1,815,449	624,648	1,650	0	(1,189,151)	0
	10,982,239	1,756,837	1,439,867	0	(7,785,535)	0
Support services:						
Student services	503,452	0	0	0	(503,452)	0
Instructional staff services	670,055	0	0	0	(670,055)	0
Administration services	1,808,906	0	0	0	(1,808,906)	0
Operation and maintenance of plant services	1,694,456	0	0	1,050,100	(644,356)	0
Transportation services	564,594	33,539	17,113	0	(513,942)	0
	5,241,463	33,539	17,113	1,050,100	(4,140,711)	0
Other expenditures:						
Long-term debt interest	875,851	0	0	0	(875,851)	0
AEA flowthrough	685,792	0	685,792	0	0	0
Depreciation (unallocated)*	314,658	0	0	0	(314,658)	0
	1,876,301	0	685,792	0	(1,190,509)	0
<b>Total governmental activities</b>	<b>18,100,003</b>	<b>1,790,376</b>	<b>2,142,772</b>	<b>1,050,100</b>	<b>(13,116,755)</b>	<b>0</b>
Business-Type activities:						
Support services:						
Administration services	633	0	0	0	0	(633)
Operation and maintenance of plant services	33,417	0	0	0	0	(33,417)
	34,050	0	0	0	0	(34,050)
Non-instructional programs:						
Nutrition services	651,629	588,856	196,353	0	0	133,580
<b>Total business-type activities</b>	<b>685,679</b>	<b>588,856</b>	<b>196,353</b>	<b>0</b>	<b>0</b>	<b>99,530</b>
<b>Total</b>	<b>\$ 18,785,682</b>	<b>2,379,232</b>	<b>2,339,125</b>	<b>1,050,100</b>	<b>(13,116,755)</b>	<b>99,530</b>
<b>General Revenues and Transfers:</b>						
General Revenues:						
Property tax levied for:						
General purposes				\$ 4,360,220	0	4,360,220
Capital outlay				506,287	0	506,287
Debt service				1,133,697	0	1,133,697
Local option sales and services tax				850,489	0	850,489
Unrestricted state grants				10,336,959	0	10,336,959
Unrestricted investment earnings				713,332	25,742	739,074
Other general revenues				55,410	0	55,410
Transfers				165,450	(200,000)	(34,550)
<b>Total general revenues and transfers</b>				<b>18,121,844</b>	<b>(174,258)</b>	<b>17,947,586</b>
<b>Changes in net assets</b>				<b>5,005,089</b>	<b>(74,728)</b>	<b>4,930,361</b>
<b>Net assets beginning of year</b>				<b>9,755,428</b>	<b>614,640</b>	<b>10,370,068</b>
<b>Net assets end of year</b>				<b>\$ 14,760,517</b>	<b>539,912</b>	<b>15,300,429</b>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>						
Cash and pooled investments	\$ 5,764,092	165,650	851,281	729,946	450,009	7,960,978
Receivables:						
Property tax						
Delinquent	126,044	13,098	0	36,400	8,454	183,996
Succeeding year	4,090,658	529,312	0	1,128,252	370,000	6,118,222
Interfund	10,201	0	0	0	0	10,201
Accounts	1,655	0	0	0	1,737	3,392
Accrued interest	74,038	0	4,135	1,404	0	79,577
Due from other governments	364,394	0	555,467	0	20,425	940,286
<b>TOTAL ASSETS</b>	<b>\$ 10,431,082</b>	<b>708,060</b>	<b>1,410,883</b>	<b>1,896,002</b>	<b>850,625</b>	<b>15,296,652</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 52,988	28,552	33,953	91	1,595	117,179
Salaries and benefits payable	114,554	0	0	0	0	114,554
Deferred revenue:						
Succeeding year property tax	4,090,658	529,312	0	1,128,252	370,000	6,118,222
Other	72,963	6,269	0	21,109	4,189	104,530
<b>Total liabilities</b>	<b>4,331,163</b>	<b>564,133</b>	<b>33,953</b>	<b>1,149,452</b>	<b>375,784</b>	<b>6,454,485</b>
Fund balances:						
Reserved:						
Debt service	0	0	0	746,550	0	746,550
Capital facility construction	0	0	758,457	0	0	758,457
LOSST supplemental	0	0	438,125	0	0	438,125
Market factor	15,675	0	0	0	0	15,675
Unreserved:						
Designated for special purposes	104,944	0	0	0	0	104,944
Designated for school sign	0	0	771	0	0	771
Undesignated:						
General	5,979,300	0	0	0	0	5,979,300
Physical plant and equipment levy	0	143,927	0	0	0	143,927
Capital projects	0	0	179,577	0	0	179,577
Management levy	0	0	0	0	208,126	208,126
Other special revenue purposes	0	0	0	0	266,715	266,715
<b>Total fund balances</b>	<b>6,099,919</b>	<b>143,927</b>	<b>1,376,930</b>	<b>746,550</b>	<b>474,841</b>	<b>8,842,167</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 10,431,082</b>	<b>708,060</b>	<b>1,410,883</b>	<b>1,896,002</b>	<b>850,625</b>	<b>15,296,652</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Total fund balances of governmental funds (page 19)	\$ 8,842,167
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	22,101,714
Blending of the Internal Service Fund to be reflected at an entity-wide basis.	400,110
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(98,542)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(16,484,932)
Net assets of governmental activities (page 17)	<u>\$ 14,760,517</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 4,035,975	506,287	850,489	1,133,697	324,245	6,850,693
Tuition	968,314	0	0	0	0	968,314
Other	779,037	2,960	250,853	141,227	463,917	1,637,994
Intermediate sources	28,766	0	0	0	0	28,766
State sources	11,615,328	261	438,125	584	178	12,054,476
Federal sources	349,399	0	1,050,000	0	0	1,399,399
Total revenues	17,776,819	509,508	2,589,467	1,275,508	788,340	22,939,642
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular instruction	6,991,099	0	0	0	138,651	7,129,750
Special instruction	2,178,958	0	0	0	0	2,178,958
Other instruction	1,425,312	0	0	0	432,437	1,857,749
	10,595,369	0	0	0	571,088	11,166,457
Support services:						
Student services	515,050	0	0	0	0	515,050
Instructional staff services	576,568	65,950	0	0	0	642,518
Administration services	1,776,641	0	0	3,397	52,385	1,832,423
Operation and maintenance of plant services	1,335,178	10,048	0	0	135,947	1,481,173
Transportation services	522,432	136,680	0	0	23,590	682,702
	4,725,869	212,678	0	3,397	211,922	5,153,866
Other expenditures:						
Facilities acquisitions	0	224,806	9,313,984	0	0	9,538,790
Long-term debt:						
Principal	0	0	0	4,150,000	0	4,150,000
Interest and fiscal charges	0	0	0	912,526	0	912,526
AEA flowthrough	685,792	0	0	0	0	685,792
	685,792	224,806	9,313,984	5,062,526	0	15,287,108
Total expenditures	16,007,030	437,484	9,313,984	5,065,923	783,010	31,607,431
Excess(deficiency) of revenues over(under) expenditures	1,769,789	72,024	(6,724,517)	(3,790,415)	5,330	(8,667,789)
Other financing sources(uses):						
Transfer in	427	0	2,865,721	415,789	0	3,281,937
Transfer out	0	0	(3,081,510)	0	(34,977)	(3,116,487)
Proceeds from the disposal of property	21,155	0	0	0	0	21,155
Total other financing sources(uses)	21,582	0	(215,789)	415,789	(34,977)	186,605
Net change in fund balances	1,791,371	72,024	(6,940,306)	(3,374,626)	(29,647)	(8,481,184)
Fund balance beginning of year	4,308,548	71,903	8,317,236	4,121,176	504,488	17,323,351
Fund balance end of year	\$ 6,099,919	143,927	1,376,930	746,550	474,841	8,842,167

SEE NOTES TO FINANCIAL STATEMENTS.



NORWALK COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 21) \$ (8,481,184)

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 9,594,413	
Depreciation expense	(440,049)	
Loss on disposal of capital assets	<u>(6,351)</u>	9,148,013

Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. 113,849

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 4,150,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 36,675

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 83,948	
Compensated Absences	<u>(46,212)</u>	37,736

Changes in net assets of governmental activities (page 18) \$ 5,005,089

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 392,181	425,592
Receivables:		
Accounts	809	0
Accrued interest	360	0
Inventories	4,808	0
Capital assets, net of accumulated depreciation(Note 5)	153,648	0
TOTAL ASSETS	<u>551,806</u>	<u>425,592</u>
LIABILITIES		
Interfund payable	0	10,201
Salaries and benefits payable	3,277	15,281
Unearned revenue	8,617	0
TOTAL LIABILITIES	<u>11,894</u>	<u>25,482</u>
NET ASSETS		
Invested in capital assets	153,648	0
Unrestricted	386,264	400,110
TOTAL NET ASSETS	<u>\$ 539,912</u>	<u>400,110</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 588,856	1,124,495
TOTAL OPERATING REVENUES	588,856	1,124,495
OPERATING EXPENSES:		
Support services:		
Administrative services:		
Services	633	0
Operation and maintenance of plant services:		
Salaries	11,461	0
Benefits	6,487	0
Services	5,917	0
Supplies	9,552	0
	33,417	0
Total support services	34,050	0
Non-instructional programs:		
Food service operations:		
Salaries	186,777	0
Benefits	68,643	0
Services	38,607	0
Supplies	337,366	0
Depreciation	20,236	0
	651,629	0
Other enterprise operations:		
Benefits	0	998,647
Services	0	11,999
	0	1,010,646
Total non-instructional programs	651,629	1,010,646
TOTAL OPERATING EXPENSES	685,679	1,010,646
OPERATING INCOME (LOSS)	(96,823)	113,849
NON-OPERATING REVENUES:		
State sources	9,179	0
Federal sources	187,174	0
Interest income	25,742	0
TOTAL NON-OPERATING REVENUES	222,095	0
Changes in net assets before other financing uses	125,272	113,849
OTHER FINANCING USES		
Transfer out	(200,000)	0
Changes in net assets	(74,728)	113,849
Net assets beginning of year	614,640	286,261
Net assets end of year	\$ 539,912	400,110

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 593,102	0
Cash received from miscellaneous operating activities	4	1,125,904
Cash payments to employees for services	(270,091)	(983,366)
Cash payments to suppliers for goods or services	(380,268)	(17,527)
Net cash provided by(used in) operating activities	(57,253)	125,011
Cash flows from non-capital financing activities:		
Interfund loan borrowings from General Fund	0	10,201
Transfer to Capital Projects Fund	(200,000)	0
State grants received	9,179	0
Federal grants received	154,809	0
Net cash provided by(used in) non-capital financing activities	(36,012)	10,201
Cash flows from investing activities:		
Interest on investments	25,742	0
Net cash provided by investing activities	25,742	0
Net increase(decrease) in cash and cash equivalents	(67,523)	135,212
Cash and cash equivalents at beginning of year	459,704	290,380
Cash and cash equivalents at end of year	\$ 392,181	425,592
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (96,823)	113,849
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	32,365	0
Depreciation	20,236	0
Decrease in inventories	481	0
(Increase)Decrease in accounts receivable	(285)	1,409
Decrease in accounts payable	(21,039)	(5,528)
Increase in salaries and benefits payable	3,277	15,281
Increase in deferred revenue	4,535	0
Net cash provided by(used in) operating activities	\$ (57,253)	125,011
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 392,181	425,592

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$32,365.

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2007

		Private Purpose Trust
		Scholarship Fund
ASSETS		
Cash and pooled investments	\$	34,597
Accrued interest receivable		396
Total assets		<u>34,993</u>
LIABILITIES		<u>0</u>
NET ASSETS		
Reserved for scholarships	\$	<u><u>34,993</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2007

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Gifts and contributions	\$ 500
Interest income	1,493
Total additions	<u>1,993</u>
Deletions:	
Regular instruction:	
Scholarships awarded	<u>1,550</u>
Total deletions	<u>1,550</u>
Change in net assets before other financing sources	443
Other financing sources:	
Transfer in	<u>34,550</u>
Change in net assets	34,993
Net assets beginning of year	<u>0</u>
Net assets end of year	<u><u>\$ 34,993</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Norwalk Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Norwalk, Iowa, and the predominate agricultural territory in Warren County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Norwalk Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Norwalk Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Warren County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation plus unspent bond proceeds and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for building improvements and equipment purchases.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:



The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded health insurance operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the

District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following

fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the

current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balances are for a sign in the Capital Projects Fund and various resale, fundraisers and donations accounts in the General Fund.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 3,089,066</u>

At June 30, 2007, the District had investments in the IPASeducation as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 3,877,006</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service. The investments in the IPASeducation are registered and not subject to rating.

**(3) Interfund Receivables and Payables**

Individual interfund receivable and payable balances at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
General	Internal Service	<u>\$ 10,201</u>

The Internal Service Fund is repaying the General Fund for benefits paid at year end. The balance will be repaid by June 30, 2008.

**(4) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects, Local Option Sales and Service Tax	\$ 415,789
Capital Projects, GO Bond Construction	Capital Projects, Local Option Sales and Service Tax	111,149
Capital Projects, GO Bond Construction	Capital Projects, Elementary Capital Projects	2,538,195
Capital Projects, Elementary Capital Projects	Capital Projects, Local Option Sales and Service Tax	16,377
Private Purpose Trust - Scholarship Fund	Special Revenue, Expendable Trust	34,550
Capital Projects, GO Bond Construction	Enterprise, School Nutrition	200,000
General	Special Revenue, Student Activity	<u>427</u>
Total		<u>\$ 3,316,487</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 256,352	0	0	256,352
Construction in progress	2,589,411	9,300,136	145,220	11,744,327
Total capital assets not being depreciated	2,845,763	9,300,136	145,220	12,000,679
Capital assets being depreciated:				
Buildings	14,574,440	145,220	0	14,719,660
Land improvements	792,022	14,040	0	806,062
Machinery and equipment	2,572,589	280,237	101,762	2,751,064
Total capital assets being depreciated	17,939,051	439,497	101,762	18,276,786
Less accumulated depreciation for:				
Buildings	5,270,535	295,296	0	5,565,831
Land improvements	514,001	19,362	0	533,363
Machinery and equipment	2,046,577	125,391	95,411	2,076,557
Total accumulated depreciation	7,831,113	440,049	95,411	8,175,751
Total capital assets being depreciated, net	10,107,938	(552)	6,351	10,101,035
Governmental activities capital assets, net	\$ 12,953,701	9,299,584	151,571	22,101,714
Business-type activities:				
Machinery and equipment	\$ 348,946	0	0	348,946
Less accumulated depreciation	175,062	20,236	0	195,298
Business-type activities capital assets, net	\$ 173,884	(20,236)	0	153,648

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 13,117
Other	13,354
Support services:	
Instructional staff services	32,671
Administration	6,809
Operation and maintenance	23,513
Transportation	35,927
	125,391
Unallocated depreciation	314,658
Total governmental activities depreciation expense	\$ 440,049
Business-type activities:	
Food services	\$ 20,236

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 17,620,000	0	4,150,000	13,470,000	535,000
Revenue bonds	2,875,000	0	0	2,875,000	320,000
Early Retirement	83,948	0	83,948	0	0
Compensated absences	93,720	139,932	93,720	139,932	139,932
Total	\$ 20,672,668	139,932	4,327,668	16,484,932	994,932

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 1, 1998			Bond Issue of May 1, 2001		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2008	4.45 % \$	370,000	34,210	4.50 % \$	25,000	136,406
2009	4.55	390,000	17,745	4.50	25,000	135,280
2010	-	-	-	4.50	25,000	134,156
2011	-	-	-	4.50	25,000	133,030
2012	-	-	-	4.50	40,000	131,906
2013-2017	-	-	-	4.55-4.80	280,000	624,919
2018-2022	-	-	-	5.00	2,340,000	300,000
2023-2025	-	-	-	-	-	-
Total		\$ 760,000	51,955		\$ 2,760,000	1,595,697

Year Ending June 30,	Bond Issue of May 1, 2005			Bond Issue of July 1, 2004		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2008	4.50 % \$	110,000	268,968	3.25 % \$	30,000	151,669
2009	4.50	120,000	264,018	3.50	30,000	150,692
2010	4.50	155,000	258,618	3.75	410,000	149,643
2011	4.50	165,000	251,642	4.00	425,000	134,269
2012	4.50	120,000	244,218	4.00	440,000	117,269
2013-2017	4.40-4.50	625,000	1,140,088	4.00-4.13	2,475,000	308,944
2018-2022	4.25-4.40	1,840,000	953,544	-	-	-
2023-2025	4.30-4.40	3,005,000	266,220	-	-	-
Total		\$ 6,140,000	3,647,316		\$ 3,810,000	1,012,486



Year Ending June 30,	Total		
	Principal	Interest	Total
2008	\$ 535,000	591,253	1,126,253
2009	565,000	567,735	1,132,735
2010	590,000	542,417	1,132,417
2011	615,000	518,941	1,133,941
2012	600,000	493,393	1,093,393
2013-2017	3,380,000	2,073,951	5,453,951
2018-2022	4,180,000	1,253,544	5,433,544
2023-2025	3,005,000	266,220	3,271,220
Total	\$ 13,470,000	6,307,454	19,777,454

#### Revenue Bonds Payable

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Issue dated June 1, 2005			
	Interest Rate	Principal	Interest	Total
2008	2.95 %	\$ 320,000	96,002	416,002
2009	3.05	330,000	86,250	416,250
2010	3.20	340,000	75,778	415,778
2011	3.63	350,000	63,994	413,994
2012	3.63	365,000	51,034	416,034
2013-2015	3.63-4.00	1,170,000	69,235	1,239,235
Total		\$ 2,875,000	442,293	3,317,293

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$287,500 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and

interest requirements of the revenue bonds for the fiscal year.

- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$582,857, \$537,603 and \$521,588, respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District has a partially self-funded health insurance plan. The District purchases commercial insurance from Blue Cross Blue Shield. The maximum cost to the District per plan is \$500.

Norwalk Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$685,792 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Construction Commitment**

The District has entered into various contracts totaling \$12,531,439 for the capital construction of the secondary campus building addition and renovations. As of June 30, 2007, costs of \$11,744,327 had been incurred against the contracts. The balance of \$787,112 remaining at June 30, 2007 will be paid as work on the project progresses.

**(11) Deficit Fund Balance**

The Capital Projects Fund, Elementary Capital Projects had a deficit unrestricted, undesignated fund balance of \$18,054 at June 30, 2007.

**(12) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

NORWALK COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 9,457,001	614,598	10,071,599	9,652,600	9,652,600	418,999
Intermediate sources	28,766	0	28,766	0	0	28,766
State sources	12,054,476	9,179	12,063,655	11,269,941	11,269,941	793,714
Federal sources	1,399,399	187,174	1,586,573	419,058	419,058	1,167,515
Total revenues	22,939,642	810,951	23,750,593	21,341,599	21,341,599	2,408,994
Expenditures:						
Instruction	11,166,457	0	11,166,457	10,958,415	11,341,045	174,588
Support services	5,153,866	34,050	5,187,916	6,026,111	6,026,111	838,195
Non-instructional programs	0	651,629	651,629	730,634	730,634	79,005
Other expenditures	15,287,108	0	15,287,108	13,170,480	11,708,179	(3,578,929)
Total expenditures	31,607,431	685,679	32,293,110	30,885,640	29,805,969	(2,487,141)
Excess(deficiency) of revenues over(under) expenditures	(8,667,789)	125,272	(8,542,517)	(9,544,041)	(8,464,370)	(78,147)
Other financing sources(uses), net	186,605	(200,000)	(13,395)	101,072	101,072	(114,467)
Deficiency of revenues and other financing sources over(under) expenditures and other financing uses	(8,481,184)	(74,728)	(8,555,912)	(9,442,969)	(8,363,298)	(192,614)
Balance beginning of year	17,323,351	614,640	17,937,991	14,271,042	14,271,042	3,666,949
Balance end of year	\$ 8,842,167	539,912	9,382,079	4,828,073	5,907,744	3,474,335

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment decreasing budgeted expenditures by \$1,079,671.

During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORWALK COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007

	Manage- ment Levy	Student Activity	Total Other Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and pooled investments	\$ 183,763	266,246	450,009
Receivables:			
Property tax			
Current year delinquent	8,454	0	8,454
Succeeding year	370,000	0	370,000
Accounts	0	1,737	1,737
Due from other governments	20,098	327	20,425
<b>TOTAL ASSETS</b>	<b>\$ 582,315</b>	<b>268,310</b>	<b>850,625</b>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 0	1,595	1,595
Deferred revenue:			
Succeeding year property tax	370,000	0	370,000
Other	4,189	0	4,189
	<u>374,189</u>	<u>1,595</u>	<u>375,784</u>
Fund balances:			
Unreserved, undesignated	<u>208,126</u>	<u>266,715</u>	<u>474,841</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 582,315</b>	<b>268,310</b>	<b>850,625</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



NORWALK COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Manage- ment Levy	Student Activity	Expendable Trust	Total Other Nonmajor Governmental Funds
REVENUES:				
Local sources:				
Local tax	\$ 324,245	0	0	324,245
Other	24,713	439,204	0	463,917
State sources	178	0	0	178
TOTAL REVENUES	349,136	439,204	0	788,340
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	138,651	0	0	138,651
Other instruction	0	432,437	0	432,437
Support services:				
Administration services	52,079	306	0	52,385
Operation and maintenance of plant services	135,947	0	0	135,947
Transportation services	23,590	0	0	23,590
TOTAL EXPENDITURES	350,267	432,743	0	783,010
Excess(deficiency) of revenues over(under) expenditures	(1,131)	6,461	0	5,330
OTHER FINANCING USES:				
Transfers out	0	(427)	(34,550)	(34,977)
TOTAL OTHER FINANCING USES	0	(427)	(34,550)	(34,977)
Net change in fund balances	(1,131)	6,034	(34,550)	(29,647)
FUND BALANCES BEGINNING OF YEAR	209,257	260,681	34,550	504,488
FUND BALANCES END OF YEAR	\$ 208,126	266,715	0	474,841

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures and Transfers out	Intra- fund Transfers	Balance End of Year
Middle School Accounts:					
General Athletics	\$ 2,637	4,202	4,854	0	1,985
Concessions	5,920	6,703	4,557	(5,119)	2,947
Chorus	1,216	7,785	6,727	0	2,274
Cross Country	184	0	20	0	164
Boys Basketball	2,439	1,964	1,575	0	2,828
Football	1,454	2,032	3,332	0	154
Baseball	76	0	1,511	1,435	0
Boys Track	1,054	963	353	0	1,664
Wrestling	1,028	580	505	0	1,103
Girls Basketball	269	1,649	1,727	0	191
Volleyball	1,148	2,701	3,444	2,000	2,405
Softball	28	40	1,752	1,684	0
Girls Track	569	509	698	0	380
Cheerleaders	389	955	812	0	532
Student Council	8,036	3,955	3,810	0	8,181
Art Club	466	2,537	2,778	0	225
Ace Club	342	3,498	3,792	0	48
Annual	858	1,184	1,585	0	457
SADD	393	120	0	0	513
High School Accounts:					
General Athletics	35,228	49,663	35,528	(14,276)	35,087
Concessions	12,439	5,543	1,938	0	16,044
All School Play	1,524	833	619	0	1,738
Speech	0	0	869	869	0
Chorus	0	0	2,921	2,921	0
Dinner Show	3,098	14,466	14,620	0	2,944
Swing Choir	3,298	10,458	6,183	610	8,183
Band	3,666	28,140	25,745	3,488	9,549
Tri-M Club	130	0	0	0	130
Athletic Letter Club	896	0	216	0	680
Cross Country	1,260	1,532	1,868	0	924
Swimming	200	0	0	0	200
Boys Basketball	20,445	17,228	14,336	(310)	23,027
Football	45,603	38,316	48,220	0	35,699
Boys Soccer	2,237	17,069	13,760	(210)	5,336
Baseball	6,241	19,018	20,572	2,973	7,660
Boys Track	2,165	2,689	2,907	(45)	1,902
Boys Tennis	371	783	2,382	1,599	371
Boys Golf	797	3,813	4,605	195	200
Wrestling	12,114	40,296	33,474	0	18,936
Weight Room	1,337	13,535	14,749	0	123
Girls Basketball	18,107	17,388	17,861	(300)	17,334

NORWALK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures and Transfers out	Intra- fund Transfers	Balance End of Year
High School Accounts(Continued):					
Volleyball	9,773	8,270	5,701	0	12,342
Girls Soccer	1,779	8,543	10,650	433	105
Softball	7,378	10,489	13,115	(300)	4,452
Girls Track	1,039	8,498	8,440	(45)	1,052
Girls Tennis	107	0	519	437	25
Girls Golf	1,261	1,731	2,074	0	918
Cheerleaders	8,406	12,557	16,880	0	4,083
Drill Team	1,665	22,968	25,646	1,961	948
Class of 2004	295	0	295	0	0
Class of 2005	133	0	133	0	0
Class of 2006	11	0	0	0	11
Class of 2007	207	771	764	0	214
Class of 2008	0	14,956	9,003	0	5,953
Student Council	2,609	11,209	11,494	0	2,324
Art Club	2,710	4,023	3,553	0	3,180
French Club	3,122	4,736	5,424	0	2,434
Spanish Club	4,177	0	285	0	3,892
Annual	11,519	7,594	10,862	0	8,251
Newspaper	378	0	377	0	1
MOC	86	0	0	0	86
National Honor Society	150	450	567	0	33
SADD	169	197	97	0	269
SES	85	0	0	0	85
Debate	2,345	0	0	0	2,345
Mock Trial	960	0	53	0	907
Fanatecs/Pep Club	484	0	0	0	484
Poetry Club	171	65	33	0	203
Total	\$ 260,681	439,204	433,170	0	266,715

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUNDS  
 JUNE 30, 2007

	Capital Project Funds			
	School Capital Projects	GO Bond Construction	Local Option Sales and Services Tax	Total Capital Projects
ASSETS				
Cash and pooled investments	\$ 0	770,992	80,289	851,281
Accrued interest receivable	0	4,135	0	4,135
Due from other governments	0	0	555,467	555,467
TOTAL ASSETS	0	775,127	635,756	1,410,883
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	18,054	15,899	0	33,953
Total liabilities	18,054	15,899	0	33,953
Fund balances:				
Reserved:				
Capital facility construction	0	758,457	0	758,457
LOSST supplemental	0	0	438,125	438,125
Unreserved:				
Designated for school sign	0	771	0	771
Undesignated:				
Capital projects	(18,054)	0	197,631	179,577
Total fund balances	(18,054)	759,228	635,756	1,376,930
TOTAL LIABILITIES AND FUND BALANCES	\$ 0	775,127	635,756	1,410,883

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2007

	Capital Projects Fund			
	School Capital Projects	GO Bond Construction	Local Option Sales and Services Tax	Total
REVENUES:				
Local sources				
Local tax	\$ 0	0	850,489	850,489
Other	17,638	206,036	27,179	250,853
State sources	0	0	438,125	438,125
Federal sources	0	1,050,000	0	1,050,000
Total revenues	17,638	1,256,036	1,315,793	2,589,467
EXPENDITURES:				
Other expenditures:				
Facilities acquisitions	34,431	8,659,085	620,468	9,313,984
Total expenditures	34,431	8,659,085	620,468	9,313,984
Excess(deficiency) of revenues over(under) expenditures	(16,793)	(7,403,049)	695,325	(6,724,517)
OTHER FINANCING SOURCES(USES)				
Transfers in	16,377	2,849,344	0	2,865,721
Transfers out	(2,538,195)	0	(543,315)	(3,081,510)
TOTAL OTHER FINANCING SOURCES(USES)	(2,521,818)	2,849,344	(543,315)	(215,789)
Net change in fund balances	(2,538,611)	(4,553,705)	152,010	(6,940,306)
Fund balance beginning of year	2,520,557	5,312,933	483,746	8,317,236
Fund balance end of year	\$ (18,054)	759,228	635,756	1,376,930

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2007

	Private Purpose Trust - Scholarship Fund				
	J. Graham Scholarship	Frederick Scholarship	J.W. Winter Scholarship	V. Montgomery Memorial	D. Oviatt Scholarship
					Total
ASSETS					
Cash and pooled investments	\$ 5,184	6,170	21,292	765	1,186
Accrued interest receivable	60	71	244	8	13
TOTAL ASSETS	5,244	6,241	21,536	773	1,199
					34,993
TOTAL LIABILITIES	0	0	0	0	0
NET ASSETS					
Reserved for scholarships	\$ 5,244	6,241	21,536	773	1,199
					34,993

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust - Scholarship Fund					
	J. Graham Scholarship	Frederick Scholarship	J.W. Winter Scholarship	V. Montgomery Memorial	D. Oviatt Scholarship	Norwalk Bank Scholarship
\$	0	0	0	0	0	500
	225	258	914	40	56	0
	225	258	914	40	56	500
						1,993
	200	200	200	250	200	500
						1,550
	25	58	714	(210)	(144)	0
						443
	5,219	6,183	20,822	983	1,343	0
						34,550
	5,244	6,241	21,536	773	1,199	0
						34,993
	0	0	0	0	0	0
						0
	5,244	6,241	21,536	773	1,199	0
						34,993

## Additions:

## Local sources:

Gifts and contributions  
Interest on investments  
Total additions

## Deductions:

## Instruction:

Regular instruction:  
Scholarships awarded

Changes in net assets before  
other financing sources

## OTHER FINANCING SOURCES:

Transfer in

Change in net assets

Net assets beginning of year

Net assets end of year

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 6,850,693	6,736,606	6,162,512	5,305,313
Tuition	968,314	839,600	649,039	651,742
Other	1,637,994	1,564,120	1,077,267	867,530
Intermediate sources	28,766	0	0	4,100
State sources	12,054,476	10,892,381	10,674,782	10,020,720
Federal sources	1,399,399	278,986	292,444	1,264,994
Total	<u>\$ 22,939,642</u>	<u>20,311,693</u>	<u>18,856,044</u>	<u>18,114,399</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 7,129,750	6,477,767	5,454,201	5,472,518
Special instruction	2,178,958	2,118,210	2,808,257	2,788,710
Other instruction	1,857,749	1,524,948	1,329,236	1,282,384
Support services:				
Student services	515,050	507,941	534,207	472,981
Instructional staff services	642,518	629,511	722,545	585,660
Administration services	1,832,423	1,687,680	1,798,041	1,593,549
Operation and maintenance of plant services	1,481,173	1,462,716	1,344,243	1,293,616
Transportation services	682,702	526,566	576,734	508,090
Non-instructional programs	0	0	11,371	511
Other expenditures:				
Facilities acquisitions	9,538,790	2,831,363	596,663	1,508,524
Long-term debt:				
Principal	4,150,000	430,000	375,000	460,000
Interest and other charges	912,526	896,321	548,689	440,749
AEA flow-through	685,792	627,295	612,482	600,251
Total	<u>\$ 31,607,431</u>	<u>19,720,318</u>	<u>16,711,669</u>	<u>17,007,543</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 07	\$ 32,365
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	10,727
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	144,082
			<u>154,809</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4797-G	<u>69,745</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>24,554</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	<u>4,822</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	<u>2,765</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 07	<u>1,050,000</u>
ADVANCE PLACEMENT PROGRAM	84.330	FY 07	<u>106</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	<u>39,125</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 07	<u>16,499</u>
AREA EDUCATION AGENCY 11:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>152,296</u>

NORWALK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
AREA EDUCATION AGENCY 11 (CONTINUED) :			
SPECIAL EDUCATION - GRANTS TO STATES (IDM)	84.027	FY 07	<u>11,051</u>
SPECIAL EDUCATION - GRANTS TO STATES (HIGHLY QUALIFIED AND BEYOND)	84.027	FY 07	<u>300</u>
SPECIAL EDUCATION - GRANTS TO STATES (SENIOR EXIT SURVEYS PROJECT)	84.027	FY 07	<u>2,125</u>
TOTAL			<u>\$ 1,560,562</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Norwalk Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Norwalk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Norwalk Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Norwalk Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Norwalk Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Norwalk Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Norwalk Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Norwalk Community School District's financial statements that is more than inconsequential will not be prevented or detected by Norwalk Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Norwalk Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Norwalk Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Norwalk Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Norwalk Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Norwalk Community School District and other parties to whom Norwalk Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Norwalk Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2008

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Norwalk Community School District

Compliance

We have audited the compliance of Norwalk Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Norwalk Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Norwalk Community School District's management. Our responsibility is to express an opinion on Norwalk Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Norwalk Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Norwalk Community School District's compliance with those requirements.

In our opinion, Norwalk Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Norwalk Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Norwalk Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Norwalk Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Norwalk Community School District and other parties to whom Norwalk Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2008

NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Individual
    - CFDA Number 84.215 - Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Norwalk Community School District did not qualify as a low-risk auditee.

NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.



NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the other expenditures functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.